



County of Los Angeles CHIEF ADMINISTRATIVE OFFICE

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DAVID E. JANSSEN
Chief Administrative Officer

February 27, 2004

To: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

From: David E. Janssen
Chief Administrative Officer

Board of Supervisors
GLORIA MOLINA
First District

YVONNE BRATHWAITE BURKE
Second District

ZEY YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

TERMINATION PAY AND DEFERRED COMPENSATION

Employees with termination dates after March 31, 2004, will not be permitted to include termination pay (unused accumulated overtime, vacation, holiday time, or sick leave benefits) in the calculation of employee deferrals into the Horizons and Savings Plan.

Last year, the Internal Revenue Service (IRS) issued Section 457 final regulations that govern governmental plans such as the Horizons Plan that restricted the inclusion of termination pay in employee deferral calculations. With respect to 401(k) plans such as the Savings Plan, County Counsel has also confirmed that termination pay may not be deferred under our existing program. Consequently, compliance with the IRS guidance requires the County to stop including termination pay in the calculation of employee deferrals.

Alternative Defined Contribution Plan for Termination Pay

County Counsel has advised that a separate properly constructed defined contribution plan may be created to deal with the tax-deferral of termination pay. The 2003-06 Fringe Benefit Memoranda of Understanding with SEIU, Local 660, and the Coalition of County Unions provide for a joint union management effort to set-up such a plan by July 1, 2005. The plan will provide employees the option to elect to have a designated portion of their termination pay directed into the tax deferred defined contribution plan. There will be no County contributions connected with the new plan and all administrative costs will be borne by plan participants.

Each Supervisor
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We are committed to develop, negotiate, and gain IRS approval of the new defined contribution plan as quickly as possible. We are scheduling meetings with the unions to establish committees to begin the process.

DEJ:WGL
DT:lg

c: Department Heads
Personnel Officers
Administrative Deputies